

CEDERBERG MUNICIPALITY

ASSET MANAGEMENT



BEVESTIGING: RELEID

BAITE BESTUUR RELEID

Bovermelde beleid is goedgelkeur op:

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Handtekening van Municipale Bestuurder:

G Matthyse

Handtekening van Speaker:

J Engelbrecht

APPROVAL OF POLICY

ASSET MANAGEMENT POLICY

The above mentioned policy has been approved on:

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Signature of Municipal Manager:

G Matthyse

Signature of Speaker:

J Engelbrecht

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Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the municipal council of Cederberg Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.
Now therefore the municipal council of the Cederberg Municipality adopts the following asset management policy:

Fair Value is the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction.

GAP are standards of Generally Accepted Accounting Practice.

GRAP are standards of Generally Recognised Accounting Practice.

Heritage Assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

Infrastructure Assets are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

Intangible Assets are defined as identifiable non-monetary assets without physical substance.

Investment Properties are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

Land and Buildings are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude investment properties and land inventories.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

Other Assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

Property, Plant and Equipment (PPE) are tangible assets that:-

- (a) Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) Are expected to be used during more than one period.

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- (e) that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- (f) the effective, efficient and economical use of the resources of the municipality;
- (g) the management (including safeguarding and maintenance) of the assets of the municipality;

- (h) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (i) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- (j) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

ASSET MANAGEMENT POLICY FRAMEWORK

The main challenges associated with managing fixed assets can be characterised as follows:

- (p) Movable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- (q) Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.

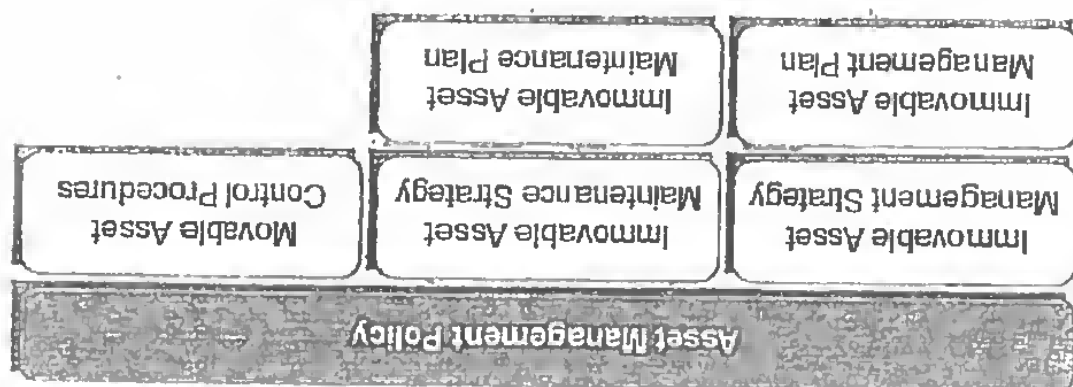


Figure 1: Proposed policy and strategic framework

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in *Appendix B*.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in *Appendix B* shall be adopted.

Procedures and Rules

The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to. The CFO shall inform the Heads of Departments of the classification requirements. Every Head of Department shall ensure that all fixed assets under their control are classified correctly.

5.2 IDENTIFICATION OF ASSETS

General

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means an accurate description of their physical location.

Policy

In asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number.

Procedures and Rules

The CFO shall develop and implement an asset identification system, while acting in consultation with the Heads of Departments. The Heads of Departments shall ensure that all the assets under their control are correctly identified. As far as practicable, all movable assets must be bar-coded or uniquely marked.

Data type	Land	Movable	Infrastructure	Buildings
Depreciation method	✓	✓	✓	✓
Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets was revalued)	✓	✓	✓	✓
Depreciation charge for the current financial year	✓	✓	✓	✓
Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓	✓
Impairment losses in the current year	✓	✓	✓	✓
Accumulated depreciation	✓	✓	✓	✓
Carrying value	✓	✓	✓	✓
Residual value	✓	✓	✓	✓
Source of financing	✓	✓	✓	✓
Asset pledged as security	✓	✓	✓	✓

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

Policy

An asset register shall be maintained for all assets. In some cases, such as investment Properties and Intangible Assets, separate asset registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a quarterly basis.

Procedures and Rules

- The CFO must define the format of the asset register in consultation with the Heads of Departments and must ensure that the asset register format complies with legislative requirements.
- The CFO must ensure that a defined process and forms exist to update and maintain the asset register.
- The Heads of Departments must provide the CFO with the information required to compile and maintain the asset register.

The size of the municipality or the size of its service areas when selling capitalisation thresholds levels. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

Every head of Department shall, however, ensure that any movable asset item with a value lower than the capitalisation threshold and with an estimated useful life of more than one year, shall be recorded on a *Minor Assets inventory listing*. Every head of Department shall moreover ensure that the existence of items recorded on such inventory stock lists are physically verified from time to time, and at least once in every financial year, and any amendments which are made to such inventory stock lists pursuant to such stock verifications shall be retained for audit purposes.

Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset
The cost of site preparation;
Initial delivery and handling costs;
Installation costs;
Professional fees such as for architects and engineers;
The estimated cost of dismantling and removing the asset and restoring the site; and
Interest costs when incurred on a qualifying asset in terms of GRAP 5.

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

The value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as a Capital asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold will be determined annually by the municipality. All assets with values less than the capitalization threshold shall be recorded in a minor assets inventory

Procedures and Rules

- Every Head of Department shall ensure that all assets under their control are correctly accounted for and recognised as assets in its significant depreciable components.
- Every Head of Department shall identify major spare parts held by its department and ensure that these spare parts are correctly classified as either PPE or inventory.
- Every Head of Department shall identify all subsequent expenditure or expenditure incurred on rehabilitation/enhancements/renovals to evaluate whether these costs should be included in the carrying values of capital assets or expensed when the costs is incurred.
- The Council shall specify which kinds of leases the municipality may enter into.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.
- Every Head of Department shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the Capital Asset.

5.5 SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS

General

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

Costs of development for housing or similar developments which are, acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

Policy

Assets acquired or owned by the municipality for the purpose of, selling, or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services, shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

Procedures and Rules

The CFO must record inventories in a dedicated section of the Inventory Register and maintain it for this purpose. The amount of cost of inventories is to be recognised and carried forward until related revenues are recognised. Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- Distribution at no charge or for nominal charge, or
- Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories shall be measured at lower of cost and net realisable value.

transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a pump in a pump station.

Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materially. However, the collection of data at this level can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below:

- Level 1: Service level (e.g. Cederberg Water Supply)
- Level 2: Network level (e.g. Cederberg Pump Stations)
- Level 3: Facility level (e.g. Amstelhof Pump Station)
- Level 4: Maintenance item level (e.g. Pump 1 in Amstelhof Pump Station)
- Level 5: Component level (e.g. Bearing of Pump 1 in Amstelhof Pump Station)

The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc. Guidance on the improvement plan is provided in Appendix C.

Policy

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to infrastructure assets should be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure

6.4 PROPERTY, PLANT AND EQUIPMENT: HOUSING ASSETS

General

Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

Policy

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

Housing Assets shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes;

Procedures and Rules

The CFO, in consultation with the Heads of Department, shall ensure that all housing assets are appropriately recorded and valued in terms of the municipality's policies.

6.5 PROPERTY, PLANT AND EQUIPMENT: HERITAGE ASSETS

General

A Heritage Asset is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

Policy

Heritage assets are valued at cost less accumulated depreciation and accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets are not known, then the heritage asset will be valued at fair value.

Policy

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset if an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 has been met.

Procedures and Rules

- The CFO, in consultation with the Heads of Department, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.

6.8 INVESTMENT PROPERTY

General

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at fair value, except in the cases described in GRAP 16.61. The fair value of investment property shall be determined annually at reporting date in terms of the municipality's Accounting Policy. The fair value should reflect market conditions and circumstances as at the reporting date. A gain or loss arising from changes in the fair value of investment property should be included in the net surplus/deficit for the period in which it arises.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Policy

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as assets held-for-sale and transferred from the home asset category to held-for-sale category. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-for-sale.

The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use.

Procedures and Rules

- The CFO shall ensure that assets held-for-sale are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.
- The CFO shall ensure the recognition and measurement of Assets Held-for-Sale in terms of GRAP 100.

6.11 INVENTORY PROPERTY (GRAP 12)

General

Inventory Property comprises any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business.

Policy

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for:

- (a) distribution at no charge or for a nominal charge, or
- (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost

ASSET ACQUISITION

7.1 ACQUISITION OF ASSETS

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

Policy

Should the municipality decide to acquire an Capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fit the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 101 and GRAP 102)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

Procedures and Rules

- The CFO shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.

- Heads of Department shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Heads of Department shall open a job card for each infrastructure project constructed by the municipality.
- On completion of the infrastructure project, the Heads of Department shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.

7.4 DONATED ASSETS

General

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Policy

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

Procedures and Rules

- All donated assets must be approved by the Municipal Manager and ratified by Council prior to acceptance.
- Management of the municipality must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- Municipal officers must first get approval from the Municipal Manager prior to accepting any donation.

Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP-3.

Procedures and Rules

- Every Head of Department must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the CFO.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

8.3 DEPRECIATION OF ASSETS

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used must reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

7. Straight-line;
8. Diminishing Balance; and
9. Sum of the Units.

Policy

All assets, except land and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is

benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the carrying value and the recoverable service value. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

Policy

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus*. The reversal of previous impairment losses recognised as an expense, is recognised as an income.

Procedures and Rules

The CFO, in consultation with the Heads of Department must ensure that professionally qualified valuers or other professionals with appropriate qualifications must perform annual impairment surveys for all assets that show impairment indicators. The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the asset register and the general ledger.

8.5 MAINTENANCE OF ASSETS AND THE ASSET REGISTER

General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed: If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.

Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

Procedures and Rules

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Heads of Department must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

8.7 REPLACEMENT OF ASSETS

General

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

Procedures and Rules

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

General

- According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:
 - the exchange transaction lacks commercial substance; or
 - the fair value of neither the asset received nor the asset given up is reliably measurable.
- If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Policy

- The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The CFO shall approve all asset exchanges in consultation with the relevant Head of Department.

9.3 ALIENATION / DISPOSAL OF ASSETS

General

- Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets.

- A municipality may not "... permanently dispose of a capital asset needed to provide the minimum level of basic municipal services"
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the asset register.
- The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.
- The CFO must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

9.4 SELLING OF ASSETS

General

Selling of assets refers to the public sale of municipal assets approved for alienation.

Policy

- All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:
- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
 - The municipality shall appoint an independent appraiser to fix a minimum selling price;
 - In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
 - In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of paragraph 6.10 of this Policy and shall not attract any further depreciation.

~~Sold assets shall be written-off in the asset register.~~

Procedures

- A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.
- Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.
- Auctioneers may be engaged either on a quotation basis or by tender depending on the goods to be alienated.

An asset, even though fully depreciated, shall be written-off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the Municipal Manager.

In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.

Assets that are replaced should be written-off and removed from the asset register.

- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed of.
- All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets.
- Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.
- Security checks of assets removed from municipal premises or brought on to premises, e.g. serial numbers, time in and out linked to access control and compulsory car inspection (if so required) accompanied by a clearance certificate should be compulsory.
- All equipment such as laptops that frequently move in and out of the building should be controlled by means of permits. Therefore, security officials should check that the item as described in the permit agrees to the physical item. Security officials should also issue permits for permanent employees and consultants who will work in the municipality for a period of more than a week. No laptops or similar equipment should leave the premises without a valid permit. For employees and consultants who will be in the municipality for less than 1 week, a daily permit should be issued.

10.2 INSURANCE OF ASSETS

General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against allied perils.

Procedures and Rules

- The Heads of Department shall annually submit a list of insurable asset types to the Municipal Manager for approval by Council.
- The Municipal Manager shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of asset, which should be either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.
- The CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

11.1 CAPITAL REPLACEMENT RESERVE (CRR)

General

The Capital Replacement Reserve is a reserve account to set aside funds for the financing of properly, plant and equipment. The CRR is, therefore, an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants & subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

Policy

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

Procedures and Rules

The CFO is responsible for creating and maintaining the CRR.
The CFO must ensure the annual transfers to the CRR from the municipality's appropriation account.
The CFO must ensure the transfers from the CRR to the municipality's appropriation account in respect of assets purchased.
The balance on the CRR must always be represented by cash, which must be held in a separately identifiable bank or investment account.
The CRR may only be utilised for the purpose of purchasing items of PPE for the municipality and may not be used for the maintenance of these items.

11.3 FUNDING SOURCES

General

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilise funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

Policy

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

Procedures and Rules

- The CFO will ensure that the capital budget is financed and that the finance sources have been identified and confirmed in writing.
- The CFO will ensure that all legislation and prescripts regarding the various funding sources be adhered to.

11.4 DISASTER

General

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

Policy

The Municipality will correspond with the Eden District Municipality to gain funds for repairing assets damaged in disaster events.

MANAGEMENT OF MOVABLE ASSETS

12.1 LEGAL FRAMEWORK

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 52(1) of the MFMA).

12.2 RATIONALE FOR MANAGEMENT OF ASSETS

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in matters of local government.

terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

12.5.2 Sustainable Service Delivery

- The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:
 - Identify levels and standards of service that conform with statutory requirements and rules for their application based on the long-term affordability to the municipality;
 - Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
 - Identify current and future demand for services, and demand management strategies;
 - Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable, in line with national targets;
 - Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
 - Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
 - Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timously;
 - Allocate budgets based on long-term (20 year) financial forecasts that take cognisance of the full life-cycle needs of existing and future assets and the risks to achieving the adopted performance targets; and
 - Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

12.5.3 Social and Economic Development

- The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:
 - Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
 - Implement changes to services in response to changing customer needs and expectations where appropriate;
 - Foster the appropriate use of services through the provision of clear and appropriate information;
 - Ensure services are managed to deliver the agreed levels and standards; and
 - Create job opportunities and promote skills development in support of the national EPWP.

ANNEXURES

ANNEXURE B INFRASTRUCTURE ASSET CLASSIFICATION

The tables below show the infrastructure classification, expected useful lives (EUL) and residual value percentage of replacement cost (RV).

Table A1: Electricity Asset Types, Expected Lives and Residual Value Percentage

Class	Asset Type	EUL	RV
High Voltage	HV Overhead Line	50	0
High Voltage	HV Substation, Battery	10	0
High Voltage	HV Substation, Electrical Plant	50	0
High Voltage	HV Substation, Yard Stone	15	0
High Voltage	HV Underground Cable	50	0
Medium Voltage	Ground Mounted Transformer	50	0
Medium Voltage	Mini Sub-Station	50	0
Medium Voltage	MV Overhead Line	50	0
Medium Voltage	MV Substation, Battery	10	0
Medium Voltage	MV Substation, MV Switchgear	50	0
Medium Voltage	MV Underground Cable	50	0
Medium Voltage	Pole Mounted Transformer	50	0
Medium Voltage	Ring Main Unit	50	0
Low Voltage	LV Conductor Network	50	0
Low Voltage	Streetlight	50	0
Low Voltage	LV Consumer Connection	50	0

Table A2: Water Supply Asset Types, Expected Lives and Residual Value Percentage

Class	Asset Type	EUL	RV
Borehole	Civil Structure	50	0
Borehole	Electrical Plant	15	0
Borehole	Telemetry	30	0
Borehole	Mechanical Plant	15	0
Dam	Civil Structure	100	0
Spring Protection	Civil Structure	50	0
Bulk Water Channel	Concrete	50	0
Bulk Water Pipeline	AC	60	0
Bulk Water Pipeline	FC	60	0
Bulk Water Pipeline	GRP	100	0
Bulk Water Pipeline	HDPE	100	0
Bulk Water Pipeline	PVC	60	0
Bulk Water Pipeline	Steel	100	0
Bulk Water Pipeline	uPVC	100	0
Pump Station	Civil Structure	50	0
Pump Station	Electrical Plant	15	0
Pump Station	Telemetry	30	0
Pump Station	Mechanical Plant	30	0
Reservoir	Civil Structure	50	0
Reservoir	Electrical Plant	15	0
Reservoir	Telemetry	30	0
Reclamation Pipeline	AC	60	0

Table A5: Solid Waste Asset Types, Expected Lives and Residual Value Percentage

Class	Asset Type	EV	RV
Containers	Containers	20	0
Landfill	Leachate System	50	0
Landfill	Wetbridge	50	0
Landfill	Earth Embankment	25	0
Landfill	Pump Station Electrical Plant	15	0
Landfill	Pump Station Civil Structure	50	0
Landfill	Leachate System	50	0
Landfill	Pump Station Telemetry	30	0
Landfill	Pump Station Mechanical Plant	15	0
Transfer Stations	Building	30	0
Transfer Stations	Civil Structure	8	0
Transfer Stations	Mechanical Plant	15	0

Table A5: Stormwater Asset Types, Expected Lives and Residual Value Percentage

Class	Asset Type	EV	RV
Attenuation Pond	Attenuation Pond	25	0
Covered Channel	Lined Channel	50	0
Culvert	Major-Culvert	50	0
Culvert	Minor-Culvert	20	0
Erosion Protection	Erosion Protection	20	0
Open Channel	Lined Channel	50	0
Open Channel	Unlined Channel	10	0
Retention Pipeline	Concrete	50	0

Road Asphalt	VA Surfacing	15	0
Road Asphalt	UA Base	30	0
Road Asphalt	UA Structure	100	0
Road Asphalt	UC Surfacing	20	0
Road Asphalt	UC Base	40	0
Road Asphalt	UC Structure	100	0
Road Asphalt	UD Surfacing	25	0
Road Asphalt	UD Base	50	0
Road Asphalt	UD Structure	100	0
Road Unpaved	Surface	7	0
Road Unpaved	Structure	25	0
Signalized Intersection	Signalized Intersection	15	0
Guardrail	Guardrail	15	0
Bridge	Bridge	100	0
Retaining Wall	Retaining Wall	100	0
Taxi Rank	Commuter Shelter	15	0
Taxi Rank	Surfacing Asphalt	15	0
Footpath	Footpath	30	0

Service	Facility/Type	Current 30 June 2009 level	Planned 30 June 2010	Final target level
Sanitation	Bulk Sewer Pipeline	4	4	4
Sanitation	Pump Station	4	4	4
Sanitation	Sewage Treatment Works	4	4	4
Sanitation	Sewer Reticulation Pipeline	4	4	4
Solid Waste	Landfill	4	4	4
Solid Waste	Transfer Station	4	4	4
Solid Waste	Container	4	4	4
Stormwater	Attenuation Pond			
Stormwater	Channel			
Stormwater	Culvert			
Stormwater	Erosion Protection			
Stormwater	Reticulation Pipeline			
Stormwater	Bridge			
Water Supply	Borehole	4	4	4
Water Supply	Dam	4	4	4
Water Supply	Spring Protection	4	4	4
Water Supply	Bulk Water Channel	4	4	4
Water Supply	Bulk Water Pipeline	4	4	4
Water Supply	Pump Station	4	4	4
Water Supply	Reservoir	4	4	4
Water Supply	Reticulation Pipeline	4	4	4
Water Supply	Water Treatment Works	4	4	4
Water Supply	Water Meters	4	4	4

